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SUBJECT: IRAN AND OIL IN SOUTHERN IRAQ: TAKING NOT GIVING

REF: EMAIL NSC/BAGHDAD DCM TASKING #3750; SEPTTEL EMBASSY BAGHDAD

CLASSIFIED BY: Louis L. Bono, Director, Basrah Regional Embassy
Office, Department of State.
REASON: 1.4 (b), (d)

¶1. (C) SUMMARY: Basrah governor Wa'eli (Fadhila) told REO Basrah on November 19 that virtually no imports of oil or derivatives from Iran enter southern Iraq. Rather Iran needs derivative imports. Oil smuggling to Iran is rampant. Wa'eli claimed that PM Maliki was allowing Iran to unfairly benefit from the oil extraction in the shared Majoon oil field, and that the proposed pipeline between Basrah and Iran was part of a policy to assist Iran. END SUMMARY.

¶2. (C) REO Basrah officials discussed spoke with Basrah Governor Mohammed Wa'eli on November 19 about oil trade with Iran. (Note: Wa'eli is head of the Fadhila party in Basrah. The South Oil Company [SOC] is reputedly controlled by Fadhila. The governor's technical advisor is on loan from SOC; both he and the SOC Director are Fadhila members. End note.) Wa'eli displayed a surprisingly detailed knowledge of the national and southern oil situations, as well as Iran's energy situation, and during our conversation he consulted by telephone several times with SOC officials. Wa'eli said with a smile that he could tell us everything we wanted to know about SOC. In reading Wa'eli's critique of Prime Minister Maliki's Oil/Iran policy, one should bear in mind the antipathy between them; Maliki continues working to unseat Wa'eli as Basrah governor. Wa'eli frequently criticizes the central government's failure to adequately invest in oil infrastructure in the south; he is also a frequent critic of Iranian meddling in Basrah.

IRAN NOT EXPORTING CRUDE OR DERIVATIVES TO SOUTHERN IRAQ

¶3. (C) Governor Wa'eli said emphatically that no petroleum or derivatives from Iran are entering southern Iraq (except perhaps negligible black market smuggling of derivatives). Basrah province has an adequate supply of petroleum derivatives and no urgent need to import them from Iran. Instead, he said that Iran has a serious shortage of derivatives stemming from the demand by its population and by its limited refining capacity. Rather, Iran is importing needed crude. Smuggling of crude to Iran is rampant, he said, from the offshore oil terminals and from the seaports. (Other contacts have told us that oil is siphoned from pipelines and at wells for smuggling to Iran.)

IRAQ GIVING OIL TO IRAN AT MAJNOON

¶4. (C) Another way Iranian source is the Majnoon oil field that straddles Iran and Iraq in the south. He said there is a

bilateral agreement between Iran and Iraq setting forth their respective rights to the field. He continued that while Iraq's side was capable of extracting up to 500,000 barrels per day (bbl/day), only 50 to 70,000 bbl/day were extracted; meanwhile Iran was extracting at a much higher (amount unknown) rate. He complained that as this was a shared field, Iraq was losing oil forever to Iran. Wa'eli claimed that this was a deliberate national policy by PM Maliki to quietly give oil to Iran.

PIPELINE TO BENEFIT IRAN

15. (C) Wa'eli spoke of the planned pipeline from Basrah to Iran, stressing what a strategic mistake it was for Iraq's national interests - "80% of the benefit will be for Iran." Wa'eli claimed that the pipeline(s) are under construction, by Iranian workers (Note: or as we have heard elsewhere, by supposed Iraqis who are either Iranians or came from living in Iran to work on the pipeline. End note.) A 32-inch pipe would deliver crude to Iran, while a parallel 16-inch pipe would return derivatives to Iraq. (Wa'eli was under the impression that the derivative pipeline was still part of the plan.) Wa'eli contended that the inclusion of the derivative pipeline was a sham since Iran would never have the excess derivative supply to export back to Iraq; the pipeline was another central government policy decision to benefit Iran rather than the Iraqi people.

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